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SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON EDUCATION AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100

November 17, 1999

VIA FACSIMILE: 202-224-2249

The Honorable Lorraine Lewis
Inspector General
U.S. Department of Education
330 C Street SW, Room 4006
Washington, DC 20202

Dear Ms. Lewis:

On October 29, several members of the Committee on Education and the Workforce visited the Department of Education (Department) and inquired about, among other matters, duplicate payments issued by the Department to grantees during 1998. Those Department officials with whom we met were not able to provide us with a complete account of the duplicate payment issuance.

We therefore, in a November 4 letter, asked the Office of the Inspector General (OIG) for specific information regarding the duplicate payments. In doing so, we mentioned that Mr. Steven McNamara of the OIG was among those present at the October 29 meeting, and that he had given a flawed account of the duplicate payment problem. In our subsequent meeting last week, both you and Mr. McNamara assured Members that any incomplete responses made by Mr. McNamara were not motivated by a deliberate attempt to mislead. We appreciate your clarifying that point, and we have no reason to believe otherwise.

We continue to believe, however, that the OIG must be more assertive in bringing information to the attention of Congress. The October 29 meeting was a clear message to officials of the Department and the OIG that Members were interested in the issue of duplicate payments. And yet, neither during that meeting nor afterward did the OIG inform Members of its knowledge that the issuance of duplicate payments may have also occurred during 1999. It was only in our recent meeting with you -- after we revealed our own direct knowledge of such suspicions -- that the OIG conveyed its own knowledge of possible duplicate payments occurring in 1999.

It is incumbent upon the OIG to keep Members informed in a timely manner. Section 4 of the Inspector General Act of 1978, as amended, requires IGs to keep both agency heads and Congress "fully and currently informed by means of reports and otherwise." Section 5 of the Act describes vehicles for accomplishing this objective. These include "Seven-Day Letter Reports"

dealing with "particularly serious or flagrant problems, abuses or deficiencies relating to the administration of programs and operations." The agency head must forward such reports unaltered to the appropriate congressional committees within seven days of issuance.

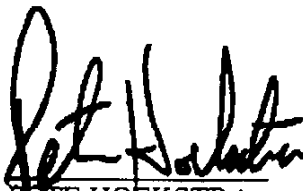
To the extent there is vagueness in phrases such as "fully and currently informed" and "particularly serious or flagrant," Subcommittee Members and staff are willing to work with the OIG to clarify our expectations. The bottom line, however, is that this Subcommittee requires timely information from the OIG to conduct proper oversight of the long-catalogued financial management problems of the Department.

In the meantime, your responses to the following inquiries will be appreciated:

1. Describe what knowledge you possess about the recording or issuance of duplicate payments by the Department during all of 1999. This includes the number and dollar amount of such payments, and whether or not payments made were subsequently recovered.
2. Submit a chart indicating how many Seven-Day Letter Reports the OIG has submitted to Congress each month for the past three years. Include the title of each such report.

Please submit your written responses by November 30, 1999. If you have any questions, please contact Peter Warren at 202-225-7101.

Sincerely,



PETE HOEKSTRA
Chairman



CHARLIE NORWOOD
Vice Chairman



BOB SCHAEFER
Member of Congress



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 30 1999

Honorable Peter Hoekstra
Chairman
Subcommittee on Oversight
and Investigations
Committee on Education and
the Workforce
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your letter of November 17, 1999, and November 29, 1999. In the November 17, 1999, letter you requested information on duplicate payments and seven-day letters. Enclosed is information relating to these issues.

In the November 29, 1999, letter you invited me to testify before the Subcommittee on a number of issues surrounding the audit of the Department of Education's Fiscal Year 1998 financial statements and the financial management practices of the Department. You also expressed interest in the Office of Inspector General's (OIG) recommendations to the Department for improvement and our plans to monitor the Department's implementation of our recommendations.

I would be pleased to testify on the matters you have identified. I plan to have Mr. Steven A. McNamara, my Assistant Inspector General for Audit Services, and Mr. Michael Lampley, Partner, Ernst and Young, which performs the financial statement audit under contract with the OIG, to accompany me so that we may respond fully to any questions the Subcommittee may ask. I will provide my written testimony in advance of the hearing.

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

I have transmitted the enclosures to Congressman Norwood and Congressman Schaffer. If Subcommittee staff have any questions leading up to the hearing please have them contact Ms. Catherine Gromek, at 205-5525.

Sincerely,



Lorraine Lewis

Enclosures

cc: Honorable Tim Roemer
(Ranking Minority Member)

Honorable Scott Fleming
Assistant Secretary (Legislation and
Congressional Affairs)

**Office of Inspector General
Department of Education**

1. **Describe what knowledge you possess about the recording or issuance of duplicate payments by the Department during all of 1999. This includes the number and dollar amount of such payments, and whether or not payments made were subsequently recovered.**

We were informed by the Department that there were two instances of duplicate payments in calendar year 1999:

- Over 250 payments totaling \$19,525,159.96 were transmitted twice on October 5, 1999 - The Department has shown us a deposit of \$19.5 million to its account on October 6, 1999. To date, we have been unable to verify the details of that deposit with the Federal Reserve Bank.
- Forty-eight payments totaling \$125,683,667.32 were transmitted on both October 18, 1999 and October 19, 1999 - The Department has shown us confirmations that it recovered \$122.7 million. Five recipients elected to keep the duplicate payments and have had their accounts adjusted. The Department has shown us that their accounts were adjusted. The total amount that the recipients kept was \$0.5 million. As of November 30, 1999, we have been unable to verify that \$2.4 million has been recovered.

We are continuing our work to independently verify that the Department has recovered these funds and we have contacted the Federal Reserve Bank to get payment data to enable us to assess whether there have been any other duplicate payments.

2. **Submit a chart indicating how many Seven-Day Letter Reports the OIG has submitted to Congress each month for the last three years. Include the title of each such report.**

We have not issued any such letters in the last three years. Prior to that, the Office of Inspector General issued two seven-day letters. This restrained use of seven-day letters is consistent with the language of the Inspector General (IG) Act, which calls for their use only when the IG becomes aware of "particularly serious or flagrant problems, abuses or deficiencies relating to the administration of programs and operations" of an agency. The legislative history of the IG Act makes clear that it is the judgment of the IG as to what constitutes a serious or flagrant problem warranting a seven-day letter.

Our sparing use of the seven-day letter is consistent with its use throughout the IG community, as reported by the General Accounting Office (GAO) in a January 1999 Report ("Inspectors General, Information on Operational and Staffing Issues," GAO/AIMD 99-29). The GAO reported that surveys by the President's Council on Integrity and Efficiency indicated that seven-day letters had been used on only ten occasions, and that no IG office issued a seven-day letter during the period January 1, 1990 to April 30, 1998.

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or serious?

The Semiannual Report is our regular means of reporting to Congress. In our *Semiannual Report No. 37*, the then Acting Inspector General in his "Message to Congress" reported that the Department had had longstanding problems in its financial and accounting systems, with the result that a full-scope financial statement audit would not be completed until August 1999, five months after its Congressionally mandated due date. In *Semiannual Report No. 38*, the then Acting Inspector General's "Message to Congress" again reported that the Department's financial records were not ready for audit. He noted that the Department's delay in furnishing us with the trial balance and financial statements would delay our audit for an additional two months. Our most recent semiannual report, a copy of which is attached, discusses the transmittal of the disclaimer of opinion on the Department's Fiscal Year 1998 financial statements.

Our communications with Congress on these financial management issues have not been limited to the Semiannual Report. In January and December 1998, we provided the Majority Leader of the House of Representatives, in response to his requests, with detailed descriptions of the Department's top ten management problems, which included issues relating to the Department's financial management systems. I attach these documents, for your information. We are currently preparing an updated version of the management issues report.

MAJORITY MEMBERS

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U.S. HOUSE OF REPRESENTATIVES
 2181 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515-6100

December 14, 1999

VIA FACSIMILE: [REDACTED]

The Honorable Marshall Smith
 Acting Deputy Secretary
 U.S. Department of Education
 Room 7W 310
 400 Maryland Avenue, SW
 Washington, DC 20202

Dear Mr. Smith:

This is to follow up on your testimony before the Subcommittee on Oversight and Investigations (Subcommittee) on December 6, 1999 in which you discussed the financial management of the Department of Education (Department).

At the hearing, the Inspector General informed members of the Subcommittee that past Department auditors have put forward a total of 120 post-audit recommendations for improving the financial management of the Department. Apparently, 32 of those recommendations have been resolved, while 88 remain open today. Since several of the material weaknesses identified in the Fiscal Year (FY) 1998 audit report are repeat conditions, I am particularly interested in any efforts of the Department to correct outstanding management deficiencies. Therefore, please respond to the following inquiries:

1. Provide a history of all recommended financial management corrective actions put forward by Department auditors since the first agency-wide audit, for FY 1995. For each fiscal year audit, report all recommendations suggested by the private auditor (or Office of the Inspector General {OIG}). Separately, indicate all recommendations that have been resolved and the date each was resolved.
2. If the Department has a corrective action plan for resolving outstanding conditions, submit the most recent version of the plan to the Subcommittee. Also, describe when and how the plan was developed, including any assistance the Department received from outside auditors or the OIG. Submit a copy of all meeting notes pertaining to consideration or implementation of the action plan. If an action plan does not now exist, I would like you to formulate one and submit it to the Subcommittee for review.

On November 18, you submitted information to the Subcommittee regarding the process by which the Department procured its current, flawed general ledger accounting system. You wrote that you expected a new system to be in place for FY 2001. Yet, at the December 6 hearing, you informed members that a new system has not even been selected yet. Therefore, I am skeptical that the Department will meet its expected timetable. As you know, the EDCAPS accounting system took several years longer to become operational than had been expected by Department officials. In order that the Subcommittee may ascertain if a similar delay is likely, please respond to the following inquiries:

3. Submit all meeting notes and written communications concerning the Department's preparations to purchase a new general ledger system to purchase.
4. Submit a detailed timetable of projected events regarding the selection and implementation of a new system, including when a purchasing decision is expected, and when testing will occur to determine if additional or alternative programming will be necessary.
5. A copy of any and all invoices from and payments to consultants regarding the selection of a new general ledger system.
6. The Subcommittee is also interested in understanding all potential costs that may be incurred through the adoption of the new system. Therefore, also submit a copy of any and all invoices from and payments to consultants who assisted the Department in the selection and implementation of the EDCAPS system -- including the i.e. FARS general ledger component. Your response should include a copy of invoices and payments concerning the automatic reconciliation tool PriceWaterhouse Coopers developed for the Department because EDCAPS failed to produce automatic reconciliations. It should also include a copy of invoices and payments concerning the training and technical assistance PriceWaterhouse Coopers provided in making EDCAPS functional and training Department staff to use the system.

At the December 6 hearing, I inquired about repayments that were made by the Department to the Treasury Department after September 30, 1998 but reported by the Department as though they had occurred prior to the end of FY 1998. This activity is referred to in the Ernst & Young LLP FY 1998 audit report on the Department, which states, "...we noted that many of the principal repayments to Treasury were made after September 30, 1998. For financial reporting purposes, the Department reflected the repayment of borrowings as if it had occurred by September 30, 1998." (*Report on Internal Control*, p. 15, par.) Regarding these backdated transactions, please respond to the following inquiries:

7. For each backdated transaction, report the amount of the payment and the date on which the transaction actually occurred.
8. Cite the Treasury Department rule/regulation/policy that authorizes transactions that occur after the end of the fiscal year to be recorded for financial reporting purposes as though they occurred before the end of the fiscal year.

Your post-hearing letter of December 10, 1999, includes a very brief explanation of the \$800 million student loan and the \$6 billion discrepancy concerning the undelivered orders portion of the Department's financial statements. Regarding your explanations, please respond to these follow-up inquiries:

9. Referring to the \$800 million loan, you state that, "We [the Department] detected this error through our regular controls...researched and corrected the loan balances, and instituted additional automated controls to prevent this type of transmission error from reoccurring." The e-mail correspondence reviewed by the Subcommittee, however, indicates that Ernst & Young LLP audit officials identified this loan balance while sampling Department loan records (maintained by the Department's Default Collection Service) for accuracy. Explain, in light of this evidence, how the Department could have detected and reconciled this error entirely on its own initiative.
10. Identify the name and last known address and telephone number of the student with whom the \$800 million loan was associated. Please refer to the social security number referred to in the e-mail message on the attached page. Also report this student's true current loan balance.
11. You state that the flawed \$800 million balance resulted from, "An error due to corrupted data in an automated transmission from a guaranty agency to the Department..." Identify the name of the guaranty agency to which your statement refers, and the date when the corrupted data transmission took place.
12. Regarding the discrepancy concerning undelivered orders, you state that the subsidiary report was \$6 billion lower than the financial statement report because, "the subsidiary report includes only a partial list of these items." Explain what items (totaling \$6 billion) were missing from the subsidiary report, and why they did not appear on said report.

Regarding the issuance of duplicate payments by the Department, what disturbs me most is that Department officials have -- on more than one occasion -- prematurely declared that this problem has been resolved. Such reassurances have been made to both General Accounting Office (GAO) officials and to the Subcommittee. Since we now know that duplicate payments were posted in October 1999 (FY 2000), please respond to the following inquiries:

13. Describe in detail the steps the Department is taking to ensure that duplicate payments will no longer be posted on the Department's computers and/or issued to grantees/contractors.
14. The Department should not be relying on grantees to report and return duplicate payments. Describe any planned or existing quality assurance efforts designed to detect whether the Department will post and/or issue further duplicate payments.

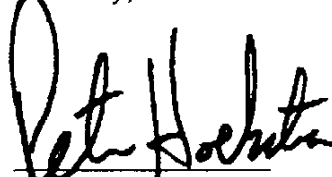
Finally, I was distressed to learn at the hearing that the Department has not yet begun conducting a monthly reconciliation with the Treasury Department. You said at the hearing that the Department plans to first conduct quarterly reconciliations, and eventually start conducting a

regular monthly reconciliation process. It seems to me that there is no reason to delay the immediate implementation of a monthly reconciliation process. Therefore, please respond to the following inquiries:

15. Explain why a monthly reconciliation process is not now in place, and why one is not now being implemented.
16. Report the monthly discrepancy between the Department and the Treasury Department at November 30, 1999 and October 31, 1999, respectively. If reconciliations did not occur for these month-ends, report the results of the last known reconciliation effort.
17. Begin reporting on a monthly basis the discrepancy between the Department and the Treasury Department. Each report should indicate the imbalance that exists as of the last day of the month being reconciled. If no reconciliation takes place, report that fact in lieu of the submission of the monthly report. The first report should describe the discrepancy that exists as of December 31, 1999.

Thank you for your cooperation in submitting your written response to the above inquiries by Monday, January 10, 2000. If you have any questions, please contact Peter Warren at 202-225-7101.

Sincerely,



PETE HOEKSTRA
Chairman

Cc:

The Honorable Lorraine Lewis, Inspector General, Department of Education
Mr. Tom Skelly, Acting Chief Financial Officer, Department of Education